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Shropshire County Pension Fund

Actuarial Valuation

Guide to your Results Schedule and Frequently Asked Questionss

November 2022

This Guide and Frequently Asked Questions document is addressed to Employers who participate in the Shropshire County Pension Fund (“the Fund”).

It provides further background information to support the communications sent to you from the Fund setting out your results for the 2022 valuation of the Fund.

The information set out herein is provided for information only and contains no advice to you.

Guide to Your Results

Each employer will receive a 3 page results schedule. Below is a brief description, with greater detail given in the FAQ section:

Page 1 – headline results and key information

VALUATION BALANCE SHEET

Assets	£1,000,000
Liabilities	£1,050,000
Surplus / (Deficit)	(£50,000)
Funding Level	95%

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EMPLOYER CONTRIBUTION REQUIREMENTS

Contributions requirements	Future Service Rate	(Surplus) / Deficit Contributions
2023/24	20.0%	-0.9%
2024/25	20.0%	£5,000
2025/26	20.0%	£6,000

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TERMINATION POSITION

Assets	£1,000,000
Liabilities	£1,040,000
Surplus / (Deficit)	(£40,000)
Early Retirement Strain	£100,000
Bond Amount (non-guaranteed employers)	£98,000

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SUPPORTING INFORMATION

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Employer Information	
Employer Type	Part 2 – Designated Body
Open/Closed	Open
Ill Health Captive	Yes
Funding Basis	Ongoing
Guarantor in Fund	n/a
Covenant rating	N/A

Future Service Prepayment Selected	None
Surplus / Deficit Prepayment Selected	None
Recovery Period from 1 April 2023	10 years

1. Balance sheet – your assets and liabilities in the Fund (liabilities are the estimated value of your current and former member’s benefits). Funding level is assets as a percentage of liabilities

2. Contribution requirements – what you will pay over the next three years:
    a. **Future service rate** (also referred to as “primary rate”) – in respect of new benefits as they are earned
    b. **Surplus / deficit contributions** (also referred to as “secondary contributions”) – to remove any surplus / deficit over the recovery period (shown in 4)

3. Termination position:
    a. the position if you had left the Fund on the valuation date. This information will not show where exit from the Fund is not possible
    b. For certain employers with no taxpayer backing a “lower risk” approach applies – however they can provide a bond (equal to the termination deficit plus early retirement strain) in return for more standard treatment, in line with communications earlier in the year.

4. Supporting information:
    a. Open / closed – means the employer admits new employees into the Fund (in which case it is “open”) or not.
    b. Ill health captive – from 1 April 2022 smaller employers will have pooled ill health experience to provide protection against material funding strains emerging from ill-health experience. Further detail is set out in the Funding Strategy Statement
    c. Funding basis – certain employers (with no taxpayer backing) have a slightly different funding approach applied – the lower risk basis unless a bond is provided equal to the amount shown (see 3b above)
    d. Prepayment – in limited cases employers can pay contributions early as a single lump sum, in exchange for a discount
    e. Recovery period – the period over which any surplus is run off or deficit is repaid.

Page 2 – Detailed results and projected contribution amounts

DETAILED RESULTS

		1		2		3	
		Final results at 31 March 2019		Actuarial Valuation Results at 31 March 2022 - No Bond		Actuarial Valuation Results at 31 March 2022 - Bond Provided	
	Assets	£800,000		£1,000,000		£1,000,000	
	Liabilities	£900,000		£1,050,000		£1,005,000	
	Surplus / (Deficit)	(£100,000)		(£50,000)		(£5,000)	
	Funding Level	89%		95%		100%	
	Employer Future Service Rate (% of pay)	16.0%		20.0%		17.0%	
4	2023/24 Projected Payroll	£218,000		£218,000		£218,000	
	Recovery Period	13 years		10 years		10 years	
	BASE RESULTS - like for like comparison before prepayment and phasing						
5	2023/24 Future Service Amount (% and £)	16.0%	£34,800	20.0%	£43,600	17.0%	£37,100
	2023/24 (Surplus) / Deficit Amount	3.1%	£6,800	2.5%	£5,400	0.2%	£500
	2023/24 Total Contributions	19.1%	£41,600	22.5%	£49,000	17.2%	£37,600
	FINAL RESULTS - allowing for prepayment and phasing						
6	2023/24 Future Service Amount (£)			20.0%	£43,600	17.0%	£37,100
	2024/25 Future Service Amount (£)			20.0%	£45,500	17.0%	£38,700
	2025/26 Future Service Amount (£)			20.0%	£47,400	17.0%	£40,400
	2023/24 (Surplus) / Deficit Amount (£)			(£2,000)		£500	
	2024/25 (Surplus) / Deficit Amount (£)			£5,000		£600	
	2025/26 (Surplus) / Deficit Amount (£)			£6,000		£700	
	Total Contributions 2023/26			£145,500		£118,000	
	Prepayment saving			£0		£0	

1. 2019 valuation results – last time’s balance sheet and resulting contributions. If you joined the Fund after 31 March 2019 this will show “n/a”

2. 2022 valuation results – the updated figures from the 2022 valuation

3. 2022 alternative results – these will only show for “lower risk” employers, and will apply if they provide a bond equal to the amount shown on page 1

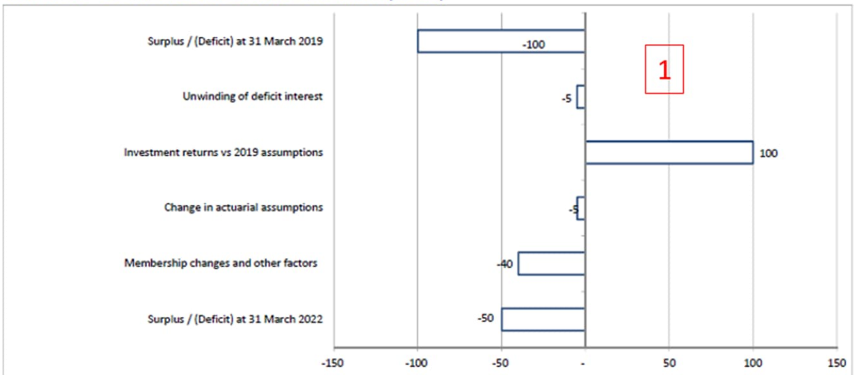
4. Projected pay – is based on the valuation member data for 2021/22, projected forward to 2023/24 using the valuation assumptions (and so is unlikely to match your records exactly)

5. Base contribution illustration – estimated contributions for 2023/24 before any adjustments (so in particular before any phasing of increases in total contributions – see FAQs). So this is a “like for like” comparison with the current funding plan.

6. Final contribution illustration – estimated contributions for the next three years after any adjustments (including any impact of prepayments where applicable). In particular, where total contributions in the previous section show an increase, this will allow for total contributions to be equal to those under the current plan for 2023/24 (see FAQs)

Page 3 – Miscellaneous stats and information

ANALYSIS OF CHANGE IN FUNDING POSITION (£000s)



ANALYSIS OF CHANGE IN FUTURE SERVICE RATE

	% of Pay
2019 Future service rate	16.0%
Change in employee contribution rate	+0.0%
Change in profile of membership	+3.4%
Change in actuarial assumptions (inc move to lower risk)	+0.6%
2022 Future service rate	20.0%

#N/A

KEY MEMBERSHIP EXPERIENCE - 2019 TO 2022

	Actual	Actual vs Expected
Pensioner Deaths	1	25%
Ill-health Retirements	0	0%
Pay Growth (liability weighted)	12%	

SUMMARY OF MEMBERSHIP DETAILS

	31 March 2019	31 March 2022
Number of Active members	10	11
Total Post 2014 Actual Salaries (£ p.a.)	200,000	200,000
Average Age (weighted by CARE pay)	50.0	52.0
Average Employee Rate (% of pensionable pay)	6.5%	6.5%
Number of Deferred Pensioners	3	4
Total Deferred Pensions at the Valuation Date (£ p.a.)	30,000	30,000
Number of Current Pensioners and Dependants	10	5
Total Pensions Payable at the Valuation Date (£ p.a.)	50,000	50,000

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1. Change in funding position – shows the key reasons for the change in surplus / deficit from 2019 to 2022

2. Change in future service rate – shows the key reasons for the change future service cost from 2019 to 2022

3. Key membership experience – shows some of the individual employer factors that drive the valuation results (note – high pay growth, high ill-health retirement rates and lower numbers of pensioner deaths can all drive liabilities up (and vice versa)

4. Membership statistics (2019 figures will be shown as “n/a” for employers joining the Fund since 31 March 2019)

Frequently Asked Questions

1. What contributions will I pay in total?

You will pay the rates shown on the first page of the schedule – you pay the future service rates less any deduction for surplus off-set / plus any additional amount for deficit contributions.

2. Why are my surplus / deficit contributions a negative percentage?

Fund policy is that where additional deficit payments are needed these are certified as £ amounts. Where there is a surplus and this is being used to reduce total contributions, these are certified as a negative %.

This can mean that there is a negative % in some years and an additional £ amount in others.

3. Why do my surplus / deficit contributions increase so much in 2024/25?

The Fund has agreed that there will be no increases in total contributions (over what would have been payable under the old plan in 2023/24) to aid employer budgeting, and so 2023/24 surplus or deficit contributions have been adjusted to reflect this.

So where employer contributions need to increase following this valuation, this begins in 2024/25.

4. I have a surplus – why do I not have surplus offsets applied to my contributions?

Fund policy is that employers with a termination deficit are not eligible to receive surplus offsets.

5. Why is my termination position better / worse than my balance sheet position

Better: The figures assume all active members become deferred, and so reduces the cost of certain final salary linked benefits.

Worse: Where an employer has no guarantor employer in the Fund to take responsibility for pension costs after exit, the Fund assesses the final termination position using different ("stronger") assumptions, which result in higher liabilities. The purpose is to ensure that the assets left in the Fund, after any top up termination payment (equal to the termination deficit) is paid, are sufficient to protect other Fund employers (all of whom would become responsible for the exiting employer's "orphaned" members, including any additional costs that arise if the ultimate experience for the members is more costly than expected).

6. What is the funding basis?

It is the assumptions used by the actuary to calculate the balance sheet and contribution requirements. The Actuary has to make assumptions as the pension costs aren't known in advance. These assumptions depend on many different factors, for example the investment returns achieved, how much pensions increase in the future (i.e. inflation), how long members will live, etc. The standard approach is the "ongoing" basis i.e. it assumes employers are not exiting the Fund in the immediate future.

7. What is the "lower risk" funding basis?

As noted in question 5 above, there are employers without taxpayer backing or a guarantor employer in the Fund who would take responsibility for their pension costs after they exit. These employers have higher termination liabilities (than their standard balance sheet).

To protect the Fund against the risk that these employers leave and are unable to afford to pay the exit debt, the employers can either provide a bond, or else be assessed using "lower risk" funding assumption that result in higher contributions, although these are still not as high as would be payable were that employer to exit the Fund. If this applies to you, the Fund has contacted you earlier this year to provide further details.

8. What happens if the assumptions aren't borne out in practice?

If events turn out worse than has been assumed in the funding basis (see 6 above), for example investment returns are lower, then at the next valuation due in 2025, the deficit will increase/surplus reduce, all else remaining equal, and your contributions would need to increase as a result. The reverse is also true if experience is better than expected.

The assumptions aim to be prudent to reduce the risk that experience is worse than assumed and costs have to step up. But the prudent assumptions do not mean that this is guaranteed.

9. What is an early retirement strain?

When a member aged over 55 is made redundant they get their benefits payable immediately without reduction – so potentially an extra 10+ years of benefit payments. This creates a one off extra cost – the early retirement strain.

10. What is the relevance of the bond amount and how is it calculated?

The termination debt and the early retirement strain is the level of the Fund's (i.e. all the other employers') exposure – if the employer exited on the valuation date and all members were made redundant, then the sum of those two figures is the amount the employer would have had to pay to the Fund.

This amount is then adjusted down, depending on the strength of the employer's covenant (i.e. the employer's ability to pay contributions to the Fund now and in the future, to meet any shortfalls that may arise).

If a bond is in place then the Fund's exposure to the employer exiting is removed (or greatly reduced) and so a less cautious approach – i.e. lower prudent.

11. What is the ill health captive?

When a member retires in ill health, their benefits are enhanced. The costs can be very large, and have a significant impact on the balance sheet and contributions of smaller employers.

To protect against this, from 1/04/2022 all employers with 200 active members or less will be included in a "captive". Essentially employers in the captive will pool their ill health experience, taking a proportionate share of the group, and so making costs far more predictable and manageable.

12. What employer options are available?

Prepayment – In limited cases, employers can pay contributions early as a single lump sum, in exchange for a discount.

Phasing of increases – In certain cases, where contributions are increasing following this valuation, employers will be able to phase in that increase over 2024/26 rather than moving to the new rate immediately in 2024/25.

13. Why has my future service rate increased?

This will vary by employer, but common causes include:

- *Change in employer profile. If the average age of your membership increases, the contribution rate will typically increase with it (and vice versa)*
- *Change in actuarial assumptions. There have been changes to the assumptions for all employers that have increased contributions*
- *Lower risk basis. For employers on the lower risk basis there is a further change in assumptions that increases the contribution rate*

14. Why has my deficit recovery period reduced?

This will reduce over time, as the Fund targets removal of the deficit by a fixed end date.

15. What should I do if I have further questions?

Please contact your usual Fund contact in the first instance, and they will direct your query as appropriate.

Notes